Brief To The Royal Commission On Petroleum Products Pricing, Province of Ontario.

A BRIEF

TO

THE ROYAL COMMISSION

ON

PETROLEUM PRODUCTS PRICING

PROVINCE OF ONTARIO

Claude M. Isbister, Esq., Commissioner

Ontario Retail Gasoline and Automotive Service Association

In Service We Serve

SUBMITTED

BY

ONTARIO RETAIL GASOLINE AND AUTOMOTIVE SERVICE ASSOCIATION

September 8, 1975

Reuben M. Bromstein
Barrister and Solicitor

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INTRODUCTION

We welcome this opportunity to make representations to the Royal Commission on Petroleum Product Pricing. We feel that this Commission provides a rare opportunity for addressing many of the urgent problems which exist in the retail gasoline market.

The Ontario Retail Gasoline Association has been established for thirty-six years. Our members represent the spectrum of types of dealers found in the industry. Our organization is a non-profit Trade Association with letters patent under the laws of the province of Ontario. Our role, as official industry spokesman, is through knowledge and education to abate trade abuses and injurious trade practices; to correct inequities within the system of distribution of petroleum products; to promote legislation which may be of benefit to retail dealers and consumers; to promote relations between suppliers and retail dealers; and to represent the interest of the individual dealer in the legislature, in government agencies and before special bodies of inquiry such as this Royal Commission.

We are particularly grateful to the Commission, as well as its Counsel and staff, for endeavouring to assist the parties to make the most meaningful contribution in the short time allotted to the discussion of Stage I of the inquiry. We now realize that the September 30th deadline is an extremely onerous one for the Commission.

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INTRODUCTION

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We have had considerable difficulty in determining which subjects are properly reviewable in Phase I and which in

Stage II. Many of the areas are clearly interrelated. We will deal with the problems which we believe relate to Stage I. Since there is no clear dividing line, we may inadvertently touch on areas which may be also referable to Stage II, and we trust that the Commission will forgive us when this occurs. We appreciate your patience and understanding in this regard.

We must regretfully say that we do not have the resources or the sophistication to deal with these problems in the same way that the oil companies do. Our counsel compiled material from other Royal Commission inquiries and literature concerned with similar problems, as well as other information supplied to him by us. He has attempted to relate the material to the information we have supplied and to the terms of reference of Stage I in a meaningful way, and we hope that the Commissioner will take into account the problems that we face in presenting this material to you.

We are unable to fully substantiate all of the statements made. We believe many of them to be true. We are providing information based on our own experience. We will attempt to relate our experience to the points made as best as we can and to answer any questions. We would hope that the Commission will be able to obtain information from the oil companies and other sources that will prove or disprove some of the personal opinions expressed in the material.

II THE ISSUES AND THE COMMISSION'S TERMS OF REFERENCE

The terms of reference concerning Stage I are detailed in paragraphs (a) and (b) of the amended Order-in-Council.

Paragraph (a) deals with the level of inventories available to Ontario as described in the paragraph.

We lack the information and resources that would be necessary to adequately discuss inventory estimates that were given in testimony before the Commission, be they public or in camera.

The primary focus of our concern relates to paragraph (b) and the question of price changes of petroleum products which may reasonably occur after the current freeze expires on September 30, 1975.

Our analysis of the problem facing the Commission in this area may perhaps be summarized as follows. It is our belief that:

(1) in the petroleum industry, the major oil companies have the power to manipulate prices at the wholesale and retail levels;

(2) this power has been exercised in a manner which has seriously eroded the independence of many dealers to price their products in a competitive environment;

(3) the Ontario gasoline market has experienced many price wars in the past few years of different degrees of intensity. The major oil companies responded to this situation in a number of ways, in an effort to maintain or increase market shares.

(4) the majors, through unfair price discrimination techniques, have imperiled the existence of many dealers by squeezing their margins to levels that are often inadequate for their continued survival. It can safely be said that many of us face a "price depression."

(5) as a result, many of our dealers, facing higher costs and lower returns, are leaving the business since they earn less per hour than an auto mechanic.

(6) the disappearance of the small gasoline businessman and the related growth of the power of the oil companies to control prices is detrimental to the long-run interests of the consumer;

(7) the price wars, which had somewhat abated during the recent "oil crisis," flared anew just prior to the price freeze.

(8) the price freeze has locked many dealers into their price depression position;

(9) as the price of gas goes up, the dealer rate of return goes down;

(10) any proposals which discuss prices and price changes must take these factors into account;

(11) if the price freeze <u>is</u> continued or <u>is not</u> continued, steps must be immediately taken to prevent the continuation of the pricing practices of the oil companies that cause so much harm to us and to the consumers' long-run interests;

The present price freeze has had the effect of perpetuating serious inequities for a great number of our dealers in the retail gasoline market. Conditions of severe hardship for dealers often prevailed before the initiation of the freeze. To prolong the price freeze in its present form would perpetuate a situation in which many dealers are forced to operate under these intolerable conditions. It would also be unfortunate if the price freeze was lifted without some effort being made to resolve the problems faced by these dealers.

Our presentation of the current market situation will identify various types of outlets currently found in the retail market. We will illustrate how some of these types of outlets, through unfair competitive practices, have been able to exert an intense squeeze on the margins of independent and lessee-operated dealerships.

The specific means by which major oil companies are able to engage in unfair competitive practices is not always clear to one outside the petroleum industry. In this regard, we would like to direct the attention of the Commission to what is a serious information problem to anyone attempting to assess the pricing of products in this industry. We have found ourselves at a serious disadvantage in attempting to secure even the most basic, meaningful data necessary to document the pricing policies including transfer pricing* of the major oil companies and their

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* Transfer price being the internal bookkeeping price arbitrarily set by the oil company for the price between its divisions, e.g. its refining division and marketing division. The company can obviously set the price to increase or decrease the profit of either division.

owned and operated outlets in the retail market. We would hope that the Commission might consider employing its powers and resources in securing such information.

We believe it essential that the members of this Commission be informed of the widespread unfair practices in the retail pricing of petroleum products in the province. As retail dealers, we believe we are in a unique position to testify as to the manner in which petroleum products have been priced during the period of the freeze. Our testimony should indicate to the Commission the manner and extent to which both dealer margins and returns on investment have been squeezed under the price freeze. We hope to graphically illustrate the quandary which dealers face when pricing their products and the urgent need for relief following the expiration of the current freeze.

III THE ORGANIZATION OF THE BRIEF

Having indicated to the Commission our major areas of concern, the organization of our brief will proceed on the following basis:

(1) An account of the types of retail gasoline outlets currently found in the market;

(2) The effects of the changing pattern of retail gasoline outlets on prices and the resulting margins of independents and lessee dealers;

(3) The effect of price wars and unfair pricing practices existing at the time of the institution of the freeze;

(4) The effect of the current price freeze on independent and lessee dealers;

(5) Proposals which we believe may relieve the problems discussed today until Stage II of the inquiry can be completed.

IV TYPES OF RETAIL OUTLETS

The presentations of the oil companies did not deal with this area in any detail. We believe that a more detailed review of this area is necessary so that a more accurate picture of the price situation may be revealed.

(1) Non-Branded Independents

This class of station, believed to account for an ever decreasing share of the market, is that in which the dealer can choose which brand to sell, since he owns his own facilities. Many of these are often low-volume outlets. They are dependent on offshore supply or the surplus gasoline available from major oil companies. There were at one time a number of "minor brand" chains with their own storage facilities, and we believe these have also declined. We believe that many of them sign long-term supply contracts with the oil companies which lock them into losing positions when the oil companies cut prices as competitors in their company-operated outlets.

(2) Branded Independents

Another class of retail station is that in which the dealer owns the permit and premises and enters into a supply contract with an oil company. He then "flies the brand" (Shell, Gulf, Esso, etc.) In some cases he flies a secondary or less well-known brand or private brand. Some private brands, e.g. Canadian Tire, have considerable market power and are exceptional in this respect. The bargaining power of this type of dealer vis-

a-vis the major oil company can often be effectively nullified where he becomes dependent on the financial assistance of the oil company or is confined to restrictive terms of supply. The oil companies also compete with these outlets directly or indirectly.

(3) Lessee

A substantial volume of the gasoline consumed in the province is sold by dealers who have entered into a lease agreement with a major oil company. The financial resources of the vertically integrated oil company allow it to purchase very expensive sites and to construct facilities thereon. The oil company assumes the position of both landlord and supplier to the retail dealer and is also his competitor.

Since the lessee neither owns the site nor the facilities, his bargaining power vis-a-vis his supplier is effectively nil. Leases commonly include numerous clauses which have the effect of restricting the behaviour of the lessee. These restrictions are given "teeth" when combined with the short-term cancellation clauses if the behaviour of the lessee should violate any of its terms. The recent government "lease guidelines"are a step in the right direction. There are strong indications to suggest that the lessee-type of outlet has accounted for a diminishing share of the market in recent years.

(4) Consignment Outlets

During a gas price war, the lessee or branded independent is unable to sell gasoline at competitive prices and remain viable since his wholesale price is often the highest one avail-

able. The dealers, to remain competitive, may enter into a consignment arrangement with the oil company. Under this type of arrangement, the oil company possesses title to the gasoline in the pumps. In return, the oil company agrees to provide a measure of price support when the dealer reduces his selling price. Under this arrangement, the oil company sets the retail selling price as well as the wholesale price of the gasoline to the dealer. The margin between the two prices has been insufficient to allow the dealer to remain economically viable over an extended period of time.

(5) Commissioned Agents

The commissioned-agent arrangement has been used by majors in recent years. In this situation, the company owns the land and facilities. It sets the retail price of gasoline which it owns. The agent receives various incentives to sell gasoline. He has more freedom than a company manager but less than a lessee. In this situation, the company is obviously able to use the outlet in its own interests, and its behaviour can strategically affect pricing in the market.

(6)(a) Company-Owned and Company-Operated Outlets are operated directly by the company, the station manager serving as an employee. These outlets are now often found in the newer locations and in the larger and more successful sites including

controlled access highways and major arteries.

These outlets include major brands, secondary brands and unbranded stations.

It appears that the number of company-owned and company-operated outlets have substantially increased in recent years, especially in the important urban markets. Strategically-located company outlets can be used to control the market behaviour of lessee and independent dealers. A few such stations, strategically located, can be used for the purpose of serving as price "pace setters," where an oil company decides to try and influence prices. Until the last decade, the number of company-owned and company-operated outlets had accounted for a small share of the market. Self-serve stations are invariably company-owned and operated.

(6)(b) <u>Company-Owned and Company-Operated Self-Serve Stations</u>

Self-serve gas bars are frequently strategically-located, high-volume outlets and, as such, may constitute a larger share of the market than their numbers alone may indicate. By all indications, their number has increased at an explosive pace over the past three years in the major urban markets. Across Canada, the number of self-serve outlets increased by 621% from May, 1973 to April, 1975. ("Service Station and Garage Management," May, 1975, p.7) We have reason to believe that in Metro Toronto the proportion of one major company's gas volume from self-serve operations was approximately 10% in 1974, now constitute about 35% and are expected to increase to 50% in early 1976.

(6) (b) continued

We believe that almost all of the self-serve outlets are company-owned and operated. We are told that lessee dealers will be allowed to operate some of these locations. We know of very few cases.

The oil company is able to run these outlets as highly capital-intensive operations and exercise total control over pricing. Because of the low labour costs associated with the operation of self-serve outlets and internal arbitrary transfer pricing, the oil companies are able to undercut other types of retail outlets in price.

(6) (c) Company-owned and operated stations have transfer prices that are internal and arbitrary. The price of gasoline to the station is set by the company and not by competitive market costs. Since they compete with all other outlets in the distribution system, this is in fact unfair competition.

These outlets are effectively subsidized by the rents and high wholesale prices paid by lessees.

TYPES OF RETAIL OUTLETS AND THE RELATION OF THE OIL COMPANIES TO THEM

Type of Retail Outlets	Oil Company Position
1. Non-Branded Independent	Supplier and Competitor
2. Branded Independent	Supplier and Competitor
3. Lessee	Landlord, Supplier and Competitor
4. Consignment	Principal, Landlord, Supplier and Competitor
5. Commissioned Agents	Principal, Owner(?), Supplier and Competitor
6. Owned and Operated by Oil Company (Including Self-Serve)	Competitor to all other Categories

We submit that unfair price competition will exist when the oil company is both supplier and competitor.

PRICE DISCRIMINATION

Price discrimination exists when a company sells the same amount of gasoline to two competitors at different prices.

There is no "sale" in the legal sense by an oil company to its company-operated station. There is also no "sale" in the legal sense under consignment deals to a non-company-operated station since the station becomes the agent of the company.

In both cases, therefore, there will be no "legal" price discrimination, even though the transactions achieve the same effect.

NON-BRANDED SELLING OF BRANDED GASOLINE

Major oil companies sell the same gasoline to non-branded stations as they do to branded stations, and different retail prices are often charged for each. If the pumps had signs which stated the brand of gasoline sold in a non-branded station, the consumer would become aware of the brand of gasoline he actually receives.

The Changing Pattern of Outlets

We have now briefly described the types of outlets to be found in the retail gasoline market today. Those providing the oil companies with the most direct form of control over retail prices are the company-owned and company-operated which include self-serve outlets. In terms of the degree of price and market control that may be available to the oil companies, the other outlets may rank in the following order: commissioned agents, consignment, lessee, branded independents and branded non-independents. The Renouf Commission in its study of the price structure of the gasoline market in Nova Scotia, found that those outlets we believe grant the most market control to the major oil companies have been increasing their share of the market as measured by either number of outlets or gallonage sold. On the other hand, those allowing the least amount of market power to the major oil companies have been declining in importance. (Renouf Royal Commission, N.S. (1968) Exhibit 6.
There are reasons to indicate that this changing pattern in the retail market is present in Ontario as well.

In the context of the price freeze, particularly with the price war factor, such market power has meant the ability to affect prices, to squeeze dealer margins and to pass much or all of the burden of cost increases to the dealers. The structure of the market, as measured by the types of outlets and the inherent resulting powers over prices, has resulted in serious inequities which serve neither the interests of the individual dealers nor those of the general public. The price freeze has locked the market into this position.

V THE IMMEDIATE PROBLEM

(1) The Setting which created the Immediate Problem

During the past decade, the industry experienced many price wars which often resulted from the importation of relatively cheaper offshore supplies of petroleum by independent dealer chains. These independents who sometimes had their own storage facilities, sold gasoline at lower prices than those used by major outlets.

In some cases, the vertically integrated oil companies sold their surplus capacity to these independents at prices which allowed them to remain viable while selling at a lower price than lessees.

The vertically integrated oil companies in an effort to maintain or increase market shares responded to these price wars in a number of ways. The majors bought out a number of these independent chains. They also set up wholly owned subsidiaries marketing secondary brands (Beaver, Econo, etc.) to compete with the lower prices of the independents and to maintain market shares. In addition, they set up consignment arrangements with their own lessees and other branded dealers and opened more company-owned and operated locations.

The price wars abated somewhat during the recent "oil crisis". Some smaller non-branded independents were unable to obtain supplies and apparently disappeared. In the few months preceding the price freeze, the price wars became more vigorous. All of the problems faced by the members of ORGA have reappeared and have apparently become worse. Transfer

pricing by vertically integrated firms in the present price situation creates special problems for our dealers. A comment on vertical integration should be relevent at this point.

Oil is transformed from its crude state to gasoline at the pump in a complex series of stages. These stages have been divided for you by others into what are called "upstream" and "downstream" operations. Upstream operations embrace those activities related to oil in its crude state: exploration, drilling and transportation by tanker and/or pipeline. Downstream operations include refining, distribution and the retailing of petroleum products. The major oil companies have vertically integrated their operations over this entire range of activities. If any level of the firm is not competitive, then it is possible for vertical integration to confer a strategic advantage on the firm so that it can influence events at other levels.

> "Without the presence of vertical integration, there is reason to believe that at least the retailing of gasoline could be workably competitive from a practical standpoint ... However, vertical integration is very much present in the (oil) industry, and its presence effectively frustrates this potentially workable competition at retail for a number of reasons. Because it frustrates retail competition, vertical integration strengthens the tendency of a marginally oligopolistic market to behave as a classic textbook example of oligopoly at its worst. (p.214)*

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* From a book on the Marketing of Gasoline by Fred Allvine (Graduate School of Management, Northwestern University) and James Patterson (School of Business, Indiana University). The book has been called by U.S. Senator William Proxmire, "the most thorough analysis of gasoline marketing that I have seen."

(2) Company Price Support to Dealers during the Freeze

In response to the price wars, some major oil companies offered "price support" or "temporary competitive allowances" to lessee dealers whereby the company agreed to provide a measure of support as the dealers' selling price declined. Under the terms of most price support arrangements, the dealer bore the entire burden of the first few cents (e.g. 3¢ - 6¢) decline in the retail price. Price decreases beyond this point were partially subsidized by the oil company.

We reproduced here the price support formula used at one moment in time by Shell Canada Limited. The numbers in the first column are the retail price per gallon. The second column indicates the amount of price support forthcoming. The third column represents the gross profit of the dealer.

Selling	Assistance	Gross
69.9	0	12.3
66.0	0	8.4
65.9	.7	9.0
64.9	1.2	8.5
63.9	1.7	8.0
62.9	2.2	7.5
61.9	2.7	7.0
60.9	3.7	7.0
59.9	4.7	7.0

By way of illustration, we may consider the case of a dealer forced to reduce his retail price from 69.9 to 64.9 cents per gallon. Of a 5¢ per gallon price reduction, 3.8¢ (or 76%) of the burden would be assumed by the dealer, with a resultant 31% cut in his profit margin. Whether the entire burden of the price reduction or some part of it was borne by dealers, the result was an intense squeeze on dealer margins.

Consignment deals are a form of price support.

Price support arrangements force the retailers to work on inadequate commissions on sales and permit some oil company control of gasoline retail prices. Assistance, in the form of price supports, is apparently given to dealers on a selective basis by the major oil company and is not necessarily available to all lessees. He might make money if he increases his gallonage sales sufficiently.

The only alternative to price support facing the dealer in such a situation is to maintain his original retail price, in which case he would rapidly lose customers to other outlets charging considerably lower prices. The unfortunate "Hobson's choice" position of the dealer is simply that of choosing between the lesser of two evils.

(3) Company-Owned Outlets

From the viewpoint of the dealer, the problem posed by company-owned and company-operated outlets is their ability to consistently undercut his retail price to the point where the lessee or independent must come down in price and reduce his profit margin. In our experience, it has not been uncommon for a lessee or independent dealer to find an outlet owned by his supplier company selling at a retail price which is very near the wholesale price which he has had to pay.

We feel that a proper question to be asked by the Commission is simply: is this lower price the result of fair retail price competition? The contention of ORGA dealers is that the answer would be "yes" only if all company-owned dealer-

ships operated under similar cost constraints and were more efficient than the lessee and independent operator. No evidence of any kind suggests that such is the case. If the company-owned outlets are a profit centre, "paying their own way" as a corporate division in the marketplace, then their supply price must be lower than that of the lessee or independent dealer. If company-owned outlets are not "paying their own way" in the marketplace, they must be receiving some form of subsidization in order to remain in business. The source of subsidy could be: (1) other divisions within the integrated firm and/or (2) other branded dealers (lessee and independents) who must pay a higher tank-wagon price and rent to the integrated firm.

(4) <u>Self-Serve</u>

The very recent intensified building program of self-serve outlets bv the major oil companies is of special concern. These may well be the most important price weapons available to oil companies. Frequently, lessee dealers have found their station being converted to self-serve upon the expiration of their lease. As with the consignment system, the effect has been to greatly enhance the control over the retail market exercised bv the major oil companies. Self-serve gas bars are strategically located, high-volume outlets and, as such, constitute a larger share of the market than their numbers alone might indicate. The focus of the building boom in self-serve

outlets has been in the major markets. Because of the low labour costs associated with the operation of self-serve outlets together with artificial transfer prices set by the company, they are able to easily undercut other types of retail outlets in price. Self-serves have further extended the market power of the oil companies at the retail level with respect to the pricing of gasoline.

Many consumers, who would normally prefer to purchase from non-self-serve stations will use self-serves if the price difference is high enough. Since the oil company owned and operated self-serves apparently have no known cost base, there is no way of telling if the price difference can be cost justified.

The freeze perpetuates the dilemma of the lessee and other dealers whose cost differentials do not allow them to compete with the self-serves on a viable basis.

VI EFFECT OF THE FREEZE

With the introduction of the price freeze in July, 1975, many dealers found themselves locked into this unfair position. These dealers were in the position of being squeezed from three sides: (1) by outlets receiving discriminatory price price supports, (2) by strategically-located company-operated stations, who were receiving subsidies earned by other functions within the vertically integrated firm and (3) by the explosive growth of low unit cost, high volume self-serve outlets which are also receiving such subsidies.

For the past two months, many dealers have been struggling under these extremely difficult conditions. We think it is evident that to continue the price freeze in its present form, beyond September 30th, will only prolong the length of time under which many dealers must operate at margins inadequate for their long-run survival.

VII DO PRICE WARS HELP OR HURT CONSUMERS?

Many of the price manipulation techniques which we have described have resulted, at least temporarily, in lower gasoline prices to consumers. We would caution anyone from drawing the conclusion that price wars of this kind represent an unmixed blessing to consumers. The vital distinction to be made is between the short-run and long-run effects which this type of activity may have on consumer interests.

In the short-run, the motorist is clearly better off since he pays less for gasoline. However, if many of the smaller, financially weaker, but not necessarily less efficient dealers are driven out of the market or relegated to a lesser market position, then what will happen to prices over the long-run? We are concerned that such changes in the structure of the retail market may have already destroyed the basis for effective competition to the detriment of the consumer.

The small gasoline businessman will probably become one of the unemployed, become a company employee or will leave the industry.

If the gasoline market is taken over completely by the large oil companies, they might set <u>retail prices higher than ever</u>. Governments could control such prices, but we prefer that the market does this through more competition.

We are in deepest sympathy with consumers who react to the increasing prices of gasoline. We would hope that you will help them to understand that we find that the money we get has not increased and has, in fact, decreased. We are making less money than ever and more of us are going out of business.

When prices are increased, we who man the front lines - the troops - bear the heaviest criticism since we are readily available to customers to criticize. They think we are making

"rip-off profits." This is the supreme irony.

If there is a "rip-off", we only know that we are being "ripped-off."

MANY DEALERS MAY GO OUT OF BUSINESS

We have attempted to compile information that would prove our decreasing incomes to you. We can testify to our personal experiences. We do not have the resources to accumulate much information. We hope the attached exhibits provide a basis from which you could begin obtaining further data.

The figures and the exhibits are provided by some of our dealers. We feel they are representative of many, if not most, independent and lessee-operated stations. If anything, they may be on the high side since the less sophisticated and less profitable operators do not keep books as accurately as some of these operators and do not always use accountants.

Some people believe that our members earn high incomes. One oil company, in the Globe and Mail in January, 1975, said that average dealer earnings in Metro in 1973 were $27,000 made up of $12,000 managerial salary and $15,000 profit. If only this were true! We would be ecstatic! These facts are simply not accurate for us. We work long hours, often averaging 60 hours per week. Our wives and older children work to help us keep the operations running. After paying employees' salaries and other expenses, you will find that many of us earn

less per hour than auto mechanics. In addition to the problems and high risks of running a small business, we now constantly face the wrath of consumers who think we set the higher prices and make big profits.

Many independent and lessee dealers have recently closed their stations because their situations have become economically impossible. They simply cannot survive at current rates of income and return. George Brown, who was the president of our South Peel Branch, was forced to leave a dealership that had been successful for many years because it became unprofitable in the current situation.

Many of our members, including a number of our own board of directors, are seriously considering getting out of the business.

Based upon a sample of dealers in Metro Toronto, we have calculated the cost to the dealer of remaining in the service station business during the year immediately preceeding the current price freeze. We have sought to answer the question: "If a dealer in June, 1974, had sold his business, deposited the capital in a bank and gone to work for someone else as an auto mechanic, then how would his position in June, 1975, compare with his actual position as a dealer?" The answer indicates that the cost to each dealer of remaining in business over this period was $2,218.00. (See exhibits) He would be "better off" working as an employee.

In other words, the average dealer "lost" over $2,200 last

year. This sample was based only on records of dealers who had an accountant. The price freeze has locked dealers into this position since this estimate was made.

The Royal Commission reports say that the dealers' turnover rate has been about 25%. We understand that this rate may now be at 30% to 35%.

During the last few years in an inflationary economy, our costs have skyrocketed. Our incomes have fallen. We received no windfall profits last year, and we did not set record profits last year as did the oil companies.

The average dealer might pump between 250,000 to 300,000 gallons a year.

If margin is	He grosses @300,000	@250,000
13¢	$39,000	$32,500
10¢	$30,000	$25,000
7¢ (e.g. on consignment base)	$21,000	$17,500

We understand that one company is closing stations that pump less than 250,000 gallons annually. This will mean more closings than ever.

One exhibit shows the sales and net profit in 1974 of one dealer who was considered a very successful dealer at one time. His gallonage has been continually falling as have his earnings.

In the years 1972-1975, for three of our board members

Gallonage decreased - 73% (average)

Rent Increased - 52% (average)

Margins between retail sales prices and tank-wagon prices since 1970 have averaged around 10.5¢ per gallon. <u>Our costs have increased, while margins have remained the same</u>. This margin also represents a decreasing percentage of gasoline prices as prices go up.

As the price goes up people buy less gasoline.

<u>This means that as the retail price of gas goes up, our returns go down</u>!

This is why we are concerned with a possible rise in price after September 30th.

Even at present prices, we are in trouble.

Mr. Commissioner, you are our only hope at this time. If you are not able to develop proposals that will help us remain alive, there may be no relief for us at all.

Many of us will stay in business, continuing to lose money, until your Stage I report comes out, since we hope that your report will recommend some short-term solutions to our serious problems.

VIII PROPOSALS

We realize that it will be difficult if not impossible for the Commission to formulate proposals concerning price changes that may reasonably occur after September 30th, that have been fully researched and considered. We recognize that, despite what we believe will be your undoubted sympathy for our plight, that adequate remedies for the problems that are frozen and "legalized" as a result of the price freeze may have to wait until the report of Stage II.

We offer the following proposals for your consideration as a number of alternatives that we hope will be considered by you.

(1) Oversupply Should Mean No Price Increase

We support the position taken by the Canadian Carwash Association, particularly in reference to excess product inventory which results in price wars and appears to dictate a price reduction, rather than an increase in the wholesale price of gasoline if the laws of supply and demand are to operate.

(2) Protect Dealers If The Price Freeze Is Continued In Any Form

If the Commission recommends a continuation of the price freeze or any other regulation of price by legislation, we would urge the inclusion of provisions in the legislation that would control the marketing practices of the major oil companies to allow our members to receive just and reasonable returns to ensure that they are able to survive and, at the same time, ensure that consumers are getting the lowest possible prices.

(3) <u>Continue Wholesale Freeze Forcing Oil Companies To Absorb Internal Transfer Costs</u>

You might consider continuing the freeze on wholesale prices at its present level, while raising the retail price level to a new higher maximum. This would force the major oil companies to apply increases to their company-owned and operated outlets, and in an existing oversupply situation would force them to absorb costs in the same way that they are now forcing dealers to absorb losses and costs.

(4) <u>Any Price Increases Should Only Be Used For Exploration</u>

If a price increase is granted to major oil companies, we would urge that steps be taken to ensure that such increases are actually used exclusively for exploration purposes. In addition, we feel that the government should ensure that true price competition is returned to the marketplace. When a price increase is available to wholesalers with market power (the oil companies) in a period of oversupply and retail price wars, they can pass the increase on to the dealers who will be forced to absorb the increase because of consumer resistance to increased retail prices. This will mean a further reduction in the margins of dealers and more of them will go under.

(5) <u>Allow Dealers To Pay The Same Wholesale Price For Gas As Company-Operated Stations Do</u>

We urgently recommend the introduction of a system of pricing that ensures that all gasoline outlets, including company-

operated and self-serve outlets, pay the same price, netted back to refinery gate, for like quantities of gasoline. In addition, no hidden subsidy should be allowed to company-operated outlets.

(6) Temporary Freeze On Opening Company-Operated Stations

We recommend a temporary freeze on the opening of company-operated stations.

(7) Pass Divorcement Laws Which Keep Oil Companies Out of Retailing.

Most important of all is our recommendation concerning divorcement legislation. We recognize that this proposal would have to be more fully explored in Stage II. Divorcement laws were recently enacted in some American states (Maryland, Florida and Delaware). Oil companies would be prevented from operating their own outlets, although they could lease such outlets on fair and reasonable terms to dealers. We urge the enactment of such legislation in Ontario to ensure the return of true price competition to the retail gasoline marketplace.

ONTARIO RETAIL GASOLINE & AUTOMOTIVE SERVICE ASSOCIATION

JAMES STANFORD,
PROVINCIAL DIRECTOR & TREASURER

ROBERT PYKE,
FIRST PROVINCIAL VICE-PRESIDENT

WILLIAM J. BURKIMSHER,
REGIONAL MANAGER